UNIVERSITY OF CALIFORNIA ACADEMIC SENATE
UNIVERSITY COMMITTEE ON PLANNING AND BUDGET

Minutes of Meeting

December 5, 2017

I. Consent Calendar

- Approval of UCPB December 5, 2017 agenda
- Approval of UCPB November 7, 2017 minutes

ACTION: UCPB approved the consent calendar.

II. Announcements

- *Joshua Schimel, UCPB Chair*

Academic Council: The Academic Council held a special meeting on November 17 to discuss actions taken by the Regents at their November 16, 2017 special meeting pertaining to President Napolitano's conduct during a recent State audit of the UCOP budget. An independent report from former CA Supreme Court Justice Moreno details UCOP's interference in surveys administered to campuses as part of the audit. The minutes of the Academic Council meeting record Council's concern. A recent Los Angeles *Times* editorial criticizes UCOP, but also expresses support for the University and makes the case for moving on. At its November 29 meeting, Council encouraged the President to make governance improvements that would increase faculty engagement in her inner circle. At that meeting, Council also met with newly-appointed UC Regent Lark Park, who serves as Governor Brown's senior policy advisor on higher education. Council members emphasized the importance of UC's research and graduate training missions, and noted that research and scholarly activities flow into the undergraduate experience at UC.

Faculty Salaries: The University Committee on Faculty Welfare recently sent a letter to the Academic Council identifying principles to guide the development of a comprehensive plan for closing the UC faculty salary gap. The principles emphasize the need to fix the published salary scales, provide all faculty with a raise, and improve equity. UCFW meets with President Napolitano on December 8 to discuss faculty salaries.

III. Consultation with Academic Senate Leadership

- *Shane White, Academic Senate Chair*
- *Robert May, Academic Senate Vice Chair*

State Audit: The April 2017 State Auditor report on UCOP budget practices and administrative spending included 33 recommendations for changing or examining budget and accounting practices at UCOP, including those related to travel reimbursement, staff compensation, and accounting procedures for systemwide academic programs and presidential initiatives. UCOP accepted the recommendations and is examining budgets for all centrally-funded programs and services, including more than 140 systemwide research programs and initiatives.

In response to a finding that UCOP had interfered with the Auditor's confidential campus survey about the quality of UCOP's services, the Regents commissioned an investigation led by former

CA Supreme Court Justice Moreno. The Regents discussed Moreno's report in a special closed meeting on November 16, and produced a statement criticizing the President for her role in the interference but also supporting her continued leadership.

Chair White has asked the President to consider three improvements to University governance: 1) the appointment of a senior advisor not otherwise involved in the day to day operation of the University, possibly a former Senate chair; 2) the elevation of the Office of the Provost to its historic level of responsibility and its inclusion in the President's cabinet; and 3) the formal or informal inclusion of the Senate chair in the President's cabinet or major planning meetings.

Chair White said the Academic Senate wants strong and stable University leadership that can make an effective case to the State for full funding of the University's mission and continued autonomy.

IV. Consultation with UCOP

- *Christopher Harrington, Interim Associate Vice President, UC Federal Government Relations (phone)*

Interim Associate Vice President Harrington reported that the U.S. House and Senate each passed versions of a tax reform bill that is now in the conference reconciliation stage. UC opposed both versions based on their negative impacts on the University and its students. UC has five main areas of concerns:

- Higher Education Tax Benefits: The House version of the bill eliminates several benefits that help undergraduate and graduate students afford college and repay loans, including the Lifetime Learning Credit, Hope Scholarship, Coverdell Education Savings Account, and Student Loan Interest Deduction. The bill also eliminates the Qualified Tuition Reduction (Section 117(d), which permits educational institutions to provide graduate students who work as teaching or research assistants with tuition reductions excluded from taxable income. The move to tax tuition waivers as income would significantly increase graduate students' tax burden. The University is hopeful that the Senate version of the bill does not include these provisions.

- Tax-Exempt Bond Financing: The House version of the bill would repeal Private Activity Bonds and Advance Refunding Bonds, tax-exempt financing options that help UC fund capital and infrastructure projects. Given that $13 billion of UC's outstanding bond debt is tax exempt, UC would be forced to forego some capital projects. The Senate version of the bill repeals Advance Refunding Bonds but not Private Activity Bonds.

- Charitable Giving: Both bills increase the standard deduction, which is expected to reduce the number of individuals who file itemized returns required for the charitable giving tax deduction. UC supports adding an above-the-line deduction for charitable giving regardless of whether an individual chooses to file an itemized return. In addition, the bills make changes to the estate tax that could lead fewer people to include UC in their estate plan.

- Unrelated Business Income Taxation: Both bills repeal the exemption government-sponsored pension plans have from the unrelated business income tax (UBIT), which would subject UC to tens of millions of additional taxation on investment income derived from UCRP.

- PAYGO: In addition, there are concerns that tax reform could trigger automatic spending cuts to programs like Medicare and Build America Bonds, given that the Senate version adds

$1.5 trillion to the debt and the “paygo” reconciliation rule requires Congress to offset tax reductions by revenue increases elsewhere that do not increase the federal debt.

Advocacy: The University mobilized quickly in response to the bills. It developed analyses and issued letters and op-eds highlighting concerns about the legislation; held numerous meetings with members of the CA congressional delegation and other legislators from both parties; and coordinated joint meetings with CSU and other institutions on issues of mutual concern to higher education. The University also engaged its UC Advocacy Network (UCAN) in a call to action campaign focused on the repeal of the higher education tax benefits. The coordinated work of campuses to mobilize constituencies, host phone banks and other events, and develop talking points and messaging has been helpful. UC will continue its advocacy work during the conference process. It expects a final tax bill to reach the President’s desk by the end of 2017.

V. UCPB Member Reports/Campus Issues

- The UCSC Undergraduate Student Union Association passed a resolution opposing any new enrollment growth until the campus addresses its existing housing issues, although plans to expand student housing at UCSC have been downsized to address environmental concerns.

- The UCR administration froze a cluster-hiring initiative at that campus following concerns about implementation and space management, and has initiated Senate consultation about how to use the remaining money set aside for the initiative.

- Graduate students are raising awareness about GSR unionization to ensure their peers and colleagues are informed in the event a vote is taken on unionization. Graduate students are also concerned about how the potential repeal of higher education tax benefits could affect affordability for already struggling students. It was noted that higher taxes could also push faculty to support graduate students from other sources, or turn to less expensive post-docs, reducing the number of TAs available for class sections.

- The UCLA Committee on Planning and Budget has noted a confusing pattern on budget sheets provided for proposed Self-Supporting Programs that relate to unaccounted elements of projected “carry-forwards,” revenues, and operating deficits, which reinforces the committee’s concerns that it lacks sufficient information to assess the financial health of proposed SSPs. CPB has also noted that the UCLA administration’s commitment to provide undergraduates with four years of housing will involve construction of as many as five new buildings.

- The UCI Committee on Planning and Budget is concerned that a $200 million gift agreement for the College of Health Sciences was negotiated without faculty involvement and includes restrictive language about the ongoing role of the donors to steer the academic enterprise. Another UCPB member noted a similar concern about restrictive language in an endowed chair agreement requiring a center director to come from a specific field.

VI. Data on Self-Supporting Programs

- *Todd Greenspan, Academic Planning Director*
- *Chris Procello, Academic Planning & Research Analyst*

UCOP consultants distributed a list of Self-Supporting Graduate Professional Degree Programs (SSGPDPs); a summary of proposed 2017-18 SSGPDP fees; and systemwide and campus-bases analyses of SSGPDP enrollments between 2001 and 2016. Some highlights from the data:

- UC has established 93 SSGPDPs since 1972, although only eleven existed until 1998. The number began growing dramatically in 2010 following the recession and declines in State support. Six of the 93 are inactive and three have been discontinued. Eight of the ten UC campuses have established at least one SSGPDP, and UCSD, UCLA, and UCI have the most.

- Applications to SSGPDPs quadrupled since 2007, from about 4,000 to almost 18,000 in 2016. In 2016, 38% of applicants were admitted and half of those admitted decided to enroll.

- Total SSGPDP enrollments tripled between 2001 and 2016. UCLA, UCB, and UCI have the largest number of total enrollments.

- The dominant SSGPDP disciplines are Health (~25% of SSGPDPs), Business (25%), and Engineering/Computer Science (13%). Business programs have the largest proportion of overall systemwide enrollments (53%), although that proportion has declined over time.

- In the 2011-16 five-year planning cycle, 62% of proposed graduate and professional degree programs were state-supported; in the 2016-21 cycle, 90% of new programs indicated they were planning to achieve self-supporting status or charge Professional Degree Supplemental Tuition.

- In 2016, the majority of SSGPDP enrollments were White (33%) and Asian (23%). Enrollments for the remaining racial/ethnic groups varied from 1% to 8%. These numbers reflect overall UC graduate education diversity. In 2016, men made up about 61% of total SSGPDP enrollments, although the gender balance has increased over time. Men and women were enrolled in similar proportions by race/ethnicity.

- The proportion of international students enrolled in SSGPDs rose from 7% in 2001 to 30% in 2016. Students from China and India are the two largest international groups. Domestic nonresident enrollment also increased, from 3% of the total in 2001 to 13% in 2016.

- The number of first year domestic SSGPDP student with Pell Grants as undergraduates has increased, though their proportion of the total has not changed dramatically.

UCOP asks SSGPDPs to include in their initial proposal materials a budget template detailing projected revenues and expenditures; however, UCOP does not maintain data on the financial status or sustainability of SSGPDPs after they have been established. In 2016, the University approved a policy that requires three-year follow-up reviews of new programs.

<u>Discussion</u>: UCPB members noted that UCPB has no way to assess the strength of SSGPDP budget proposals based on financial performance after the program is established. It would like to see fiscal outcomes relative to original plans and projections, to determine how many programs are hitting their targets or falling short, and to help inform campus and systemwide reviewers about what comprises a realistic budget model. In addition, UCPB members noted that the actual proportion of international students enrolled in SSGPDPs who are originally from another country may be higher given that international graduate students become CA residents after one year.

VII. Inequities Task Force

UCPB was asked to assess funding models that could serve as alternatives to Funding Streams and allow all UC campuses to attain an equitable level of funding. Chair Schimel drafted a charge for a UCPB Inequities Task Force that will assess potential mechanisms for ensuring that all campuses can provide a comparable educational experience. The charge asks the Task Force to quantify inequities in relation to the resources available to support undergraduate education across the campuses; identify potential mechanisms to address inequities; and analyze potential benefits and costs associated with those mechanisms.

2016-17 UCPB Chair Sadoulet joined the meeting to discuss the differential campus resource analyses he prepared last year. He noted that the UC campus funding scheme includes fundamental inequities, and that while the Regents' new nonresident enrollment policy avoided the catastrophe of a ten percent cap, it created a differential cap across campuses that lacks a strong educational justification, leaves money on the table, and exacerbates inequities. The state's decision to implement a separate line item appropriation of the UCOP budget also exacerbates inequities between campuses that use more and fewer UCOP services.

Professor Sadoulet's April 2017 analysis of resources available per student across UC campuses uses a metric based on the money coming to campuses for rebenching; tuition and fees net of aid; and nonresident supplemental tuition. It calculated the average total per student support across the system to be $19,782, with Berkeley on top at $21,253 per student (107% of average) followed by UCLA at $21,030 (106%), and UCSD at $20,950 (105%). At the other end was UCM at $16,632 (84%). The system as a whole was 93% of Berkeley's level.

He said a strong justification exists for using systemwide resources to increase instructional funding on the younger, less-resourced campuses, and therefore to help increase the quality and reputation of those campuses. Some have proposed socializing a portion of nonresident tuition across campuses, applying the Funding Streams assessment to some or all of the existing off-the-top set-asides, or increasing the Funding Streams assessment.

Last year, UCPB identified several principles that should apply to any plan for addressing inequities. These include simplicity and transparency, based in rational planning, with a clear timeline, and an assessment of historical allocations, traditional set-asides, and corridor agreements.

Professor Sadoulet's recommendations include 1) cleaning-up rebenching by funding aspirational graduate enrollment growth; 2) defining systemwide initiatives more clearly to ensure they benefit the core UC mission and boost the quality and reputation of the younger campuses; 3) identifying a fairer system of taxation that eliminates set asides (for example, the $100 million set aside for the Agricultural Experiment Station) and funds all systemwide priorities, including debt, through an increased assessment.

Discussion: Chair White noted that the University needs a more rational capital funding process that balances the need to fund capital growth on newer campuses with capital renewal on older campuses. Chair Schimel observed that UC needs to balance incentives that allow campuses to be entrepreneurs and increase resources, with social controls that limit the total resource pool the wealthiest campuses can accumulate. A UCPB member noted that UC has roughly $3.9 billion in resources; a scheme to address the funding gap between Berkeley and the other campuses would cost approximately $273M ($3.9B*.07%). Another member noted that the Task Force could use successful efforts by individual campuses to address inequities as a proof of concept for the systemwide effort. Associate Vice President Alcocer suggested looking at regional differences in the cost of living as a factor in the examination of inequities. Finally, it was suggested that UCPB bring members of other committees into the Task Force. (Doing so will require input from UCOC.)

VIII. Capital Finance

- *Nathan Brostrom, Executive Vice President and Chief Financial Officer*

CFO Brostrom joined UCPB to present an overview of UC's borrowing programs and its goals and objectives in using debt to finance long-term capital assets and shorter-term projects.

<u>Overview</u>: The University has $19.1 billion of outstanding long-term debt. It issues debt using three main vehicles: General Revenue Bonds (GRB), Limited Project Revenue Bonds (LPRB), and Medical Center Pooled Revenue Bonds (MCPRB). GRBs fund core academic buildings, have the highest possible credit rating, and are backed by general UC revenues, excluding Medical Center revenues and State appropriations. LPRBs are rated a notch below GRBs. They are backed by UC's collective auxiliary revenues and fund revenue-producing projects such as parking, housing, and athletic facilities. MCPRBs are funded separately through and backed by Medical Center revenue. The University also carries nearly $1.5 billion in debt to support systemwide priorities, including the required employer contribution to UCRP, and UC Path.

<u>Debt Policy</u>: In 2016, the Regents established a new Debt Policy governing the use, structure, and management of systemwide debt to finance capital projects and other priorities. The Policy outlines three basic metrics for assessing proposed campus debt issues. Campuses must demonstrate Affordability (a positive cash flow margin); as well as one of two additional metrics: a debt service to operations ratio below 6%, or appropriate leverage (expendable resources to debt $\geq$ 1x). The policy requires campuses to meet added debt service coverage requirements for auxiliary projects.

<u>State Financing</u>: The University has identified $27.6 billion in capital needs, related to deferred maintenance, seismic upgrades, hospitals, auxiliary, and general campus projects, including $8.4 billion in needs for which the campuses have not identified funding, and $5 billion in projects eligible for external financing through state General Obligation bonds. State capital funding is critical to UC's ability to further its mission, but the University has not received GO Bond financing since 2006 or Lease Revenue Bond Financing since 2011. In 2013, State bond support was replaced by the AB 94 mechanism, which allows UC to use up to 15% of its state general fund allocation to fund debt service for capital projects. UC has used the mechanism to fund critical projects like Merced 2020 that support the needs of the University; however, those funds are also a trade-off with the operating budget and other priorities. UC's 2017-2020 AB 94 plan targets deferred maintenance and capital projects addressing seismic/life safety and enrollment.

<u>Housing</u>: The President launched a Student Housing Initiative in 2016 to address concerns about insufficient space in campus housing, and low vacancy rates/high rents in off-campus housing. The initiative's goal was to add 14,000 new beds by fall 2020; it is on track to deliver 17,000 beds. UC is financing about half of the projects with LPRBs and half with a public-private partnership (P3) delivery model, following an RFI process that identified eight developers eligible to compete for upcoming P3 housing projects. UC also finances specific student housing projects using a third party tax-exempt debt vehicle called a Financing Trust Structure (FTS).

<u>Discussion</u>: UCPB members noted that UC classrooms have grown beyond their designed capacity, and UC should prioritize funding for construction of academic buildings with larger classrooms and additional labs needed to meet growing enrollments in STEM disciplines. CFO Brostrom noted that UC is making the case to the State that it cannot keep taking more students without capital funding.

IX. Consultation with UCOP

- *David Alcocer, Associate Vice President and Director, Operating Budget*

2018-19 Budget: The University expects the Governor to propose a 3% increase to UC's budget in 2018-19, rather than the 4% increase included in the budget framework agreement, a $30 million difference. The University is considering an inflation-based adjustment to tuition and fees and weighing other options for addressing the funding gap, which include reducing the money set aside for salary increases and reinvestments in quality, and delaying the planned increase of the UCRP employer contribution rate from 14 to 15 percent. UCOP favors the latter strategy. UC has also asked the State for $35 million in one-time funding to address deferred maintenance.

- ➢ Chair White asked UCOP to consider a smaller increase to the UCRP employer contribution (e.g., 14% to 14.25%), as well as cuts to set-asides.

2018-19 Enrollment Plan: The Budget Act calls on UC to share the $15 million cost of enrolling 1,500 new California resident undergraduates in 2018-19 using State general funds redirected from systemwide programs and services. UCOP asked campuses to revise their original growth plans, noting the difficultly of accommodating 2,500 new enrollments without any State support. The campus revisions totaled 2,000, with UCR (900) and Merced (425) requesting the most growth. UCOP is assembling a proposal to fund 1,500 enrollments with $8 million from UCOP administrative reductions, $2.5 million in cost adjustments to set-asides, $1.5 million in reductions to small single-campus programs, and surplus State lottery revenues. UCOP will ask the State to fund the remaining 500 students.

ABC and 2:1: UC is finalizing a report on campus plans for meeting the 2:1 Freshman to Transfer enrollment ratio and a report on outcomes from the Activity-Based Costing (ABC) pilots at UCR, UCD, and UCM. UCOP is waiting for feedback from the state about the UCSC and UCR proposals for increasing their transfer ratios and does not anticipate an additional state request that would jeopardize the $50 million the state is withholding pending those reports.

Meeting adjourned at 4:00 pm
Minutes Prepared by Michael LaBriola, Principal Committee Analyst
Attest: Joshua Schimel